
CODE COMPREHENSION AND AGGRESSIVENESS AMONG CORPORATE TAX EXECUTIVES: THE IMPACT OF CERTIFICATION AND LICENSURE

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ABSTRACT

Research has shown that corporate tax executive certification and licensure (credentials) are important indicators of tax resource allocation within a corporation. This study investigates the overall impact of corporate tax executive credentials on job performance. We measure tax executive job performance in the following ways: understanding of tax guidance, perception of time constraints imposed by tax code changes, and reported aggressiveness of the corporate tax return. Corporate tax noncompliance can result from aggressive positions taken on a tax return or from the misunderstanding of relevant tax guidance, including the Internal Revenue Code, tax regulations, and tax law. Therefore, it is important to identify the differentiating factors related to corporate tax aggressiveness and comprehension of tax guidance by corporate tax professionals. Two hundred twenty-three experienced corporate tax executives responded to a detailed questionnaire regarding corporate tax compliance. Results of the study indicate that tax executive credentials significantly impact understanding of the tax code, perceptions of tax laws and regulations, and aggressive filing. Specifically, tax executives without credentials are more likely to report difficulty with tax code readability and more likely to report aggressive filing behavior.

INTRODUCTION

The ability of corporate tax executives to perform their job functions and to make appropriate filing decisions is dependent on their understanding of relevant tax guidance and their intent to comply with the tax code. Corporate tax compliance has been the subject of recent accounting and taxation research studies, and researchers have identified several factors that may impact compliance (Shevlin, 2007; Weisbach & Plesko, 2007). Researchers have also noted that individual characteristics have the ability to impact performance (Keller, 2007). It is important for regulators, researchers, and tax executives to understand the perceptions of corporate tax executives regarding tax codes and regulations as well as the individual characteristics of corporate tax executives that may impact performance.

The study's purposes are to explore the perceptions of corporate tax executives regarding the Internal Revenue Code, to examine individual characteristics that may impact understanding of the Internal Revenue Code among corporate tax executives, and to determine if certain characteristics may also result in the filing of corporate tax returns that are considered aggressive. Based on the findings of recent research, this study examines the impact of a specific individual characteristic—corporate tax executive certification and licensure (credentials)—on code comprehension and aggressiveness (Epps, Cleaveland & Bradley, 2009). Data for the study is obtained from a detailed questionnaire that elicits information from corporate tax executives. The questionnaire gathers information on the perceptions of corporate tax executives regarding the Internal Revenue Code and its sentence structure, vocabulary, cross references, frequency of changes, timetables for compliance, the tax law treatment for specific items and aggressiveness of filed corporate returns.

We find that corporate tax executives perceive the Internal Revenue Code to be difficult to understand due to its sentence structure, cross references, and specified tax treatment for certain transactions. Tax executives also perceive that the timetables for compliance with new regulations is unreasonable. We then separate the tax executives with certification and/or licensure (credentials) from those without such credentials. Tax executive credentials were found to significantly impact both code comprehension and reported aggressiveness in the filing of the corporate return. We also test for competing factors that may drive code comprehension, and we find that both credential groups are similar in their knowledge of the tax function, influence over tax decisions, and educational achievement.

The remainder of the paper is organized as follows. The next section reviews the literature related to code comprehension and aggressive filing decisions. This section also presents the hypotheses. The third section describes the study methodology and summarizes the demographic characteristics of the study respondents. The fourth section discusses the results of the study, and the final section provides a summary and conclusion.

LITERATURE REVIEW AND HYPOTHESES

The revenue generated through the tax system is used to finance social and economic government programs. Without tax compliance, the tax system simply does not work, and the government does not generate the expected tax revenues (Ayers, Jackson & Hite, 1989; Hanlon, Mills & Slemrod, 2005). Tax noncompliance can be intentional or unintentional. Company size, industry regulation, firm profitability, risk seeking behavior, and executive compensation are some of the determinants of intentional tax noncompliance. Complexity of tax authority, the compliance burden of filing various forms, carelessness, and education are factors which have been shown to influence unintentional tax noncompliance (Rego & Wilson 2008, Rice 1992).

Research has also shown that aggressiveness in tax reporting can vary according to the clarity of the tax guidance, the aggressiveness of the client, and the tax preparer's experience.

(Ayers, Jackson & Hite, 1989; Cloyd & Spilker, 1999; Helleloid, 1989). Tax professionals are also more likely to take aggressive tax positions when the tax guidance provided is ambiguous. The assumption is that because it is a subjective area, there is room for interpretation (Ayers, Jackson & Hite, 1989; Klepper, Mazur & Nagin, 1991).

Cloyd (1997) finds that when tax professionals are held accountable, the effort that they put forth in researching a tax issue increases, regardless of their level of tax knowledge. However, the manner in which tax professionals perform tax research and their susceptibility to confirmation bias varies according to their tax training (Cloyd & Spilker, 2000). Further, Eriksen and Fallen (1996) find that as tax knowledge increases, perceptions of the fairness of the tax system and the seriousness of tax evasion also increase.

Although the Internal Revenue Code is the basis of tax law in the U.S., it is not the only form of tax guidance. For example, tax regulations and prior court holdings may also influence tax executive's decisions. This guidance can be unclear or ambiguous as to the exact tax treatment. Because the certification and licensure requirements of tax executives include additional study that aims to improve the preparer's expertise, it is likely that credentialed tax executives have an increased understanding of the tax code. The first hypothesis investigates the relationship between the credentials of tax executives and their comprehension of tax guidance:

H1: Tax executives with credentials are less likely to report that tax guidance is difficult to understand.

Often the U.S. tax system is referred to as "burdensome." This can be due to tedious filing requirements, frequent changes in the tax rules, or unrealistic timetables (Slemrod, 1998; Slemrod & Bakija, 1994). Tax executives with credentials are likely to have had additional training. This training may have given them the skills need to quickly adapt to changing rules and the forms necessary for complying with the change. The second hypothesis focuses on the relationship between tax executive credentials and perceptions of the timing of new tax laws:

H2: Tax executives with credentials are less likely to express dissatisfaction with the timing of new tax laws and the timing of required compliance with new tax laws.

Research has shown that tax practitioners often interpret ambiguous tax treatment in their favor (Klepper, Mazur & Nagin, 1991). In a study examining the impact of certification credentials on tax compliance decision-making, Cuccia (1994) finds that the amount of time that certified accountants spend researching ambiguous tax issues differs from the amount of time that commercial tax preparers spend on researching the ambiguous tax issues. Further, when given a numerical threshold for applying a standard, tax practitioners are more lenient when evaluating evidential support (Cuccia, Hackinbrack & Nelson, 1995). Thus, clarifying ambiguous standards

may not reduce aggressiveness. The third hypothesis focuses on the relationship between tax executive credentials and aggressive filing of the corporate tax return.

H3: Tax executives without certification or licensure are more likely to report aggressive filing decisions than tax executives with at least one credential.

METHODOLOGY

Questionnaire Design

A questionnaire was developed to examine the corporate tax environment. The first part of the questionnaire asked for opinions about factors potentially related to code comprehension and the preparation of the federal corporate tax return (Bradley, 1994). While not the focus of this paper, other sections of the questionnaire solicited opinions regarding the impact of recent legislative and procedural updates and the level of compliance of the most recent corporate tax return. The final part of the questionnaire requested demographic and descriptive information. The questionnaire was pilot tested with accounting and taxation professors, which resulted in minor modifications to the questions to ensure optimal comprehension by recipients.

The Tailored Design Method for mail surveys was utilized in determining the randomized selection of questionnaire recipients and points of contact with recipients (Dillman, 2007). The method prescribes sampling procedures to represent the population of interest and several points of contact with questionnaire recipients, including a mailed prenotice letter, a personalized questionnaire cover letter, a reminder postcard, and a personalized replacement questionnaire cover letter. The wording of notices and cover letters mailed to recipients is included in Appendix A.

Respondents

Eight hundred one corporate tax executives were sent mail questionnaires requesting participation. Two hundred twenty-three completed questionnaires were returned, resulting in a response rate of 27.8 percent. Table 2 summarizes characteristics of the respondents based on gender, age range, education level, professional certification/licensure, and years of tax experience. The majority of respondents who provided demographic information were male (76.9 percent), and the modal respondent age range was 46-50 years (21.3 percent). The majority of respondents have completed a master's degree in accounting or taxation (52.3 percent), and 14.9 percent of respondents have a juris doctorate. One hundred seventy-nine respondents (80.3 percent) are certified public accountants. Of the respondents, 64.4 percent have more than twenty years of professional tax experience.

To ensure that questionnaire respondents held positions of influence over the tax compliance function at their respective corporations, the following two questions were asked in the questionnaire:

How familiar are you with your corporation's federal income tax compliance function? [answer choices from 1(not familiar) to 7(very familiar)]

How much influence do you have on your corporation's federal income tax reporting decisions? [answer choices from 1(not influential) to 7(very influential)]

Eighty-nine point two (89.2) percent of respondents answered “6” or “7” regarding familiarity with the tax compliance function, and 86.6 percent answered “6” or “7” regarding influence over corporate federal income tax reporting decisions. Thus, our respondent pool is very experienced and appropriate for the completion of the questionnaire and the identification of corporate tax environment fit measures.

Table 1. Respondent Characteristics			
		Frequency	Percent
Gender	Female	51	23.1
	Male	170	76.9
Age Range	Under 30	1	0.5
	31—35	6	2.7
	36—40	17	7.7
	41—45	44	19.9
	46—50	47	21.3
	51—55	44	19.9
	56—60	39	17.6
	61—65	18	8.1
	Over 65	5	2.3
Education Level (Degrees Obtained)	Bachelor's Degree	220	98.7
	Master of Taxation or Accounting	116	52.0
	Other Master's Degree	44	19.7
	Juris Doctorate	33	14.9
	Other Degree	2	0.9

Table 1. Respondent Characteristics			
		Frequency	Percent
Professional Certification or Licensure	CPA	179	80.3
	CMA	6	2.7
	CIA	3	1.3
	Licensed Attorney	32	14.3
	Other	8	3.6
	No Certification	26	11.7
Years of Tax Experience (Mean = 24.7)	0—10	6	2.7
	11—20	73	32.9
	21—30	100	45.0
	31—40	42	18.9
	Greater than 40	1	0.5
Corporation	Publicly Held	150	67.6
	Privately Held	72	32.4

RESULTS

Perceptions of Internal Revenue Code

Table 2 reports the mean responses for all respondents to the ten questionnaire items that measure understanding of the tax code and the timing of tax laws. The scale for each item was from 1 = strongly disagree to 7 = strongly agree, and multi-directional questionnaire items were utilized (Dillman, 2007). In the area of comprehension of tax guidance, questions were asked regarding code sentence structure, readability, and cross references. In general, corporate tax executives agreed that both the sentence structure and the vocabulary of the Internal Revenue Code make it difficult to read. Tax executives also find that cross references to other code sections increase the comprehension difficulty. Changes in tax laws are also seen as problematic by corporate tax executives. Tax executives find that tax law changes occur too frequently and that administrative requirements are excessive. Other general findings include an agreement that too many changes occur at once and that timetables for compliance with new regulations are unreasonable.

Table 2. Descriptive Statistics for Tax Executive Perceptions of the Internal Revenue Code		
N = 222		
Scale: 1 = strong disagreement; 7 = strong agreement		
Item:	Tax executive responses:	
	Mean	Standard Deviation
Tax Law changes occur too frequently.	5.18	1.24
The sentence structure of the Internal Revenue Code makes it difficult to read.	5.50	1.35
The vocabulary of the Internal Revenue Code makes it difficult to read.	4.89	1.60
In the Internal Revenue Code, the cross references to other code sections make it difficult to understand.	5.47	1.36
Tax regulations that affect my company are generally clear and unambiguous.	2.82	1.27
Tax law does not impose an excessive amount of administrative requirements.	2.34	1.53
Over the past decade, technical errors have contributed to uncertainty in the tax law.	4.42	1.18
Major tax acts tend to make too many changes in the tax law at one time.	4.70	1.44
The Internal Revenue Service imposes unreasonable timetables for compliance with new regulations.	4.58	1.34
Sometimes, the tax law treatment for transactions in which my corporation engages is not clear cut.	5.40	1.19

In order to examine the impact of tax executive credentials on code comprehension, timing, and aggressive filing, responses to related questionnaire items were examined for respondents with no certification or licensure (credential) and for respondents with at least one credential. As noted in Table 1, the most common credentials among respondent tax executives are Certified Public Accountant and Licensed Attorney. Individual questionnaire items were utilized to test hypotheses related to code comprehension, timing of tax acts, and aggressive filing behavior.

Code Comprehension

Two questionnaire items resulted in significantly different responses between tax executives with credentials and tax executives without credentials. In the area of sentence structure, the mean response to the item “The sentence structure of the Internal Revenue Code makes it difficult to read” was higher for tax executives without credentials (5.84) than tax executives with credentials (5.45) ($p = .05$). However, tax executives with at least one credential had stronger agreement with the item “Sometimes, the tax law treatment for transactions in which my corporation engages is not clear cut” ($p = .05$). These results, which partially support H1, indicate that the credentials of certification and/or licensure may provide increased understanding of the tax code as a whole, yet it may also

increase knowledge of code details that may affect the specific transactions applicable to corporate economic events.

Timing of Tax Laws

Corporate tax executives without credentials had a moderately significant stronger agreement with the questionnaire item “The Internal Revenue Service imposes unreasonable timetables for compliance with new regulations” (4.92 vs. 4.54, $p = .10$). Thus, while most corporate tax executives believe that the timing of new tax regulations is too frequent, tax executives without credentials are more likely to report unreasonable timetables. There is moderate support for H2, Table 3 summarizes the significant indicators of code comprehension and timing by tax executive credential status.

Category:	Item:	Mean Response: no certification or licensure (n=25)	Mean Response: at least one certification or licensure (n=197)	<i>p</i>
Sentence Structure	The sentence structure of the Internal Revenue Code makes it difficult to read.	5.84	5.45	.05
Timetables	The Internal Revenue Service imposes unreasonable timetables for compliance with new regulations.	4.92	4.54	.10
Specific Transactions	Sometimes, the tax law treatment for transactions in which my corporation engages is not clear cut.	4.96	5.46	.05

Aggressive Filing

The questionnaire item “I would characterize the last federal income tax return filed by my corporation as aggressive” was utilized to test for the impact of tax executive credentials on aggressive filing behavior. As shown in Table 4, tax executives without credentials were significantly more likely to agree with this statement. This indicates that aggressive filing behavior is more likely among corporate tax executives without credentials, and H3 is supported.

Table 4. Reported Aggressive filing by Taxpayer Executive Credentials				
Scale: 1 = strong disagreement; 7 = strong agreement				
Category:	Item:	Mean Response: no certification or licensure (n=25)	Mean Response: at least one certification or licensure (n=197)	p
Aggressive Filing	I would characterize the last federal income tax return filed by my corporation as aggressive.	3.16	2.62	.05

Competing Explanations

To ensure that other differences between non-credentialed respondents and credentialed respondents were not driving the results, additional analysis examined the two groups in terms of experience, influence over the tax function, age, education, and public vs. private corporation status. Experience with the federal corporate tax compliance function was measured in two ways. First, the years of tax experience of respondents with no credentials was compared with the years of experience of respondents with at least one credential. The mean years of reported tax experience was 29 years for respondents with no credentials and 24.1 years for respondents with at least one credential ($p = .002$). Additionally, responses to the question “How familiar are you with your corporation’s federal income tax compliance function?” were compared [answer choices from 1(not familiar) to 7(very familiar)]. There was no significant difference between the mean response of tax executives without credentials (6.68) and the mean response of tax executives with at least one credential (6.51). Thus, while tax executives without certification or licensure have more years of tax experience, both groups report very strong familiarity with the federal corporate tax reporting function.

Similarly, both groups reported very strong influence over the corporate tax decision-making in their organizations. Responses to the question “How much influence do you have on your corporation’s federal income tax reporting decisions?” were compared [answer choices from 1(not influential) to 7(very influential)]. There was no significant difference between the mean response of tax executives without credentials (6.48) and the mean response of tax executives with at least one credential (6.43).

There was a significant difference between the age ranges of tax executives without certification or licensure and tax executives with at least one certification ($p = .002$). As reported in Table 5, the modal age range for respondents without credentials was 56 – 65 years, while the modal age range for respondents with at least one credential was 46 – 55 years.

Age Range:	Percentage: no certification or licensure (n = 25)	Percentage: at least one certification or licensure (n = 197)
<25 – 45 years	16.0	32.7
46 – 55 years	24.0	43.4
56 – 65 years	52.0	22.4
>65 years	2.0	1.5

Both groups of respondents report similar levels of educational achievement and similar percentages of employment in public vs. private corporations. Almost all respondents have obtained a bachelor's degree (96.0% for respondents without certification or licensure, 99.5% for respondents with at least one credential), and the rate of Master of Accounting or Master of Taxation degree completion was 52% for both groups. There was no significant difference in the percentage of respondents employed by publicly-traded corporations for respondents without certification or licensure (72%) and respondents with at least one credential (67%). Based on the results of analysis of the work experience, education, and influence of tax executives with and without credentials, the significant code comprehension and filing aggressiveness differences between the two groups are unlikely to be a result of competing explanations.

SUMMARY AND CONCLUSION

This study has examined the perceptions of corporate tax executives regarding tax guidance. These perceptions are important, as the ability of corporate tax executives to comprehend the tax code and to effectively implement changes in the code are important indicators of tax compliance. Results of the study indicate that corporate tax executives as a whole find difficulties with the readability of the Internal Revenue Code, specifically its sentence structure, vocabulary, and cross references. Regulators should examine the wording of new tax regulations and the manner in which code sections are cross referenced. The timing of updates to the tax code also presents difficulties to corporate tax executives. The findings of this study suggest that the existing efforts to simplify the tax code are warranted.

According to Black and Black (2004), obtaining a degree in accounting may not be adequate training for a tax preparer; he or she also needs to be trained in “tax law and tax procedures, a disciplined, analytical approach to tax problems and their numerous ramifications.” Likewise, a law degree is not adequate training for a tax practitioner; the computations involved in calculating the tax issues often will not have been taught. This study presents an analysis of the performance effects on tax executives of obtaining additional training via relevant certification and licensure. The finding that tax executives without such credentials have more difficulty with the sentence structure and timetables of tax regulations is important, as the qualifications for corporate tax executives vary

widely in practice. The finding that corporate tax executives without credentials report significantly more aggressive filing behavior provides needed information to regulators, professional organizations, and others who make decisions regarding corporate taxation. More research is needed on additional individual characteristics that impact the performance of corporate tax executives and the resulting effect on corporate tax compliance.

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APPENDIX A

Dear Tax Executive,

A few days from now, you will receive in the mail a request to fill out a questionnaire for an important tax compliance research project being conducted by XXXXX.

I am writing in advance because we have found that many people like to know ahead of time that they will be contacted. The study is an important one that will help government officials as well as corporations to understand the factors that positively and negatively impact tax compliance.

Thank you for your time and consideration. It is only with the assistance of professionals like you that our research can be successful.

Sincerely,

Recipient Name
Recipient Title
Address 1
Address 2
Address 3

Dear Mr./Ms. Recipient:

The tax compliance burden of corporations continues to be a matter of concern for policymakers and corporate tax professionals. I am writing to ask your help in a study of corporate tax executives being conducted at XXXXX. The study is part of an effort to learn the factors that either facilitate or impede a corporation's ability to comply with tax provisions. We believe that this information is vital to effective tax reform. The results of the research will be made available to the AICPA, TEI, the ABA and other interested groups.

You are one of a small number of corporate tax executives selected to give opinions on this subject. We are asking you to take a few minutes to complete the enclosed questionnaire. To ensure that the results truly represent the consensus of the tax professional community, it is important that each questionnaire be completed and returned. The questionnaire solicits your opinions only and does not require you to gather any additional information from your records.

Your answers are completely confidential and will be reported only as summaries in which no individual's answers can be identified. The questionnaire has an identification number for mailing purposes only, enabling us to check your name off of the mailing list when your questionnaire is returned. Your name will never be placed on the questionnaire itself.

In addition to me, the investigators on this research project are XXXXX, at XXXXX and XXXXX at XXXXX. If you have any questions or comments, please feel free to contact me at XXXXX or XXXXX.

Thank you for helping with this important study. We appreciate your time and effort.

Sincerely,

XXXXX
Project Director

The purpose of this research has been explained and your participation is entirely voluntary. The research entails no known risks and your identity will be known only to the researchers. Your responses are not being recorded in any individually identifiable form. Therefore, confidentiality will be maintained. By completing this survey, you are agreeing to participate in this research project.

Research at XXXXX that involves human participants is carried out under the oversight of an Institutional Review Board. Questions or problems regarding these activities should be addressed to XXXXX, Chairperson of the Institutional Review Board, XXXXX.

Dear Mr/Ms. First Last,

A few days ago, I sent you the Survey of Corporate Tax Professionals being conducted by XXXXX.

If you have already completed and returned it, I thank you very much. The study will help government officials as well as corporations to make important decisions about such issues as code interpretation and the impact of recent legislation. The information you provide is very important to the accuracy and success of the survey.

If you have not yet had time to complete the questionnaire, please do so as soon as possible. If you need another copy of the questionnaire or have any questions about the survey, please contact me at XXXXX or XXXXX. I will be happy to talk with you.

Sincerely,

Recipient Name
Recipient Title
Address 1
Address 2
Address 3

Dear Mr./Ms. Recipient:

About three weeks ago, I sent a questionnaire to you that asked for your opinions about corporate tax compliance. To the best of our knowledge, it's not yet been returned.

The opinions of people who have already responded include a wide variety of factors that impact a corporation's ability to comply with tax provisions. Many have commented on the impact of recent legislation. We think that the results are going to be very useful to policy makers.

We are writing again because of the importance that your questionnaire has for helping to get accurate results. It is only by hearing from nearly everyone who received a questionnaire that we can be sure that the results truly represent the consensus of the tax professional community.

A few people have written to say that someone else in their organization would be more appropriate to complete the questionnaire. If you feel that you are not familiar enough with the Federal income tax compliance function to complete the questionnaire, please forward the questionnaire to a more appropriate individual in your company.

Our survey procedures protect your confidentiality. A questionnaire identification number is printed on the back cover of the questionnaire so that we can check your name off of the mailing list when it is returned. The list of names is then destroyed so that individual names can never be connected to the results in any way. Protecting the confidentiality of respondents is very important to us, as well as the university.

We hope that you will fill out and return the questionnaire soon, but if for any reason you prefer not to answer it, please let us know by returning a note in the enclosed stamped envelope. If you have any questions, please feel free to contact me at XXXXX or XXXXX.

Thank you for helping with this important study. We appreciate your time and effort.

Sincerely,

XXXXX
Project Director

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